

## Section 2: How Assets Create a Financial Foundation

We will discuss the relationship among assets, liabilities, equity, and net worth.



### Key Takeaway



Net worth is a good measure of your financial stability. Calculate your net worth by subtracting your liabilities (money you owe others) from your assets.

### Assets, Liabilities, and Equity

An **asset** is something you own that has value.

A **liability** is something you owe others, usually money.

**Equity** is the value of an asset minus the liability related to that asset.

$$\text{Equity} = \text{Value of Asset} - \text{Related Liability}$$



## Try It: Calculating Liability and Equity

Read the scenario and then answer the questions.

### Scenario: Ezra's Car Purchase

Ezra needs a car to get to work and to school. He finds a used car at the dealership that's worth \$5,000. He has been saving \$25 a week for the past six months. He now has \$600 to use as a down payment.



**What is the car's value?**

**Ezra decides to take out a loan to buy the car.  
How much money does he need to borrow?**

**What is Ezra's liability for the car?**

**What is Ezra's equity in the car when he drives it off the lot?**

## Net Worth

Net worth is a measure of someone's financial wealth.

Net worth is your assets minus your liabilities.

Value of Net Worth	What It Means
<b>Positive net worth</b>	The value of your assets covers all of your liabilities, and there is still some left over. You have a cushion for financial emergencies.
<b>Zero net worth</b>	Your assets equal your liabilities. You do not have a financial cushion.
<b>Negative net worth</b>	Your liabilities are greater than your assets. You do not have a financial cushion and do not have enough assets to pay back your liabilities.

$$\text{Your Total Net Worth} = \text{Your Assets} - \text{Your Liabilities}$$



### Try It: Calculating Net Worth

Read the scenario and then calculate Justine's net worth using the *Net Worth Calculation* table on page 14.

#### Scenario: Justine Calculates Her Net Worth

Justine bought her home seven years ago. The current value of her home is \$130,000, and she still owes \$100,000 on her mortgage. She has \$1,500 in a checking account and \$500 in a savings account, which she uses for emergencies.

She has a truck that she bought used a few years ago. She could sell it for \$2,000. She still owes \$3,000 on the loan for the truck.

She has one credit card with a balance of \$1,000 and has a student loan balance of \$15,000. She has a lot of furniture and heirlooms handed down from her grandmother, including some genuine antiques. Their value was recently estimated at \$7,000.



### Try It: Calculating Net Worth *continued*

## Justine's Net Worth Information

### Assets

Item	Value
Cash	
Checking and savings accounts (current balance)	\$2,000
Matched savings account	
Savings bonds (current value)	
Stocks or mutual funds	
Certificates of deposit (CDs)	
Investment accounts (college savings plan, ABLE account, 401(k), IRA, other investments)	
Life insurance policy (cash value, if any)	
Car(s) or Truck(s) (trade-in or resale value)	\$2,000
Other vehicles (motorcycle, motor home, boat, etc.)	
Home she owns (use the market value)	\$130,000
Personal possessions (jewelry, antiques, electronics, furniture, appliances, other items she could sell)	\$7,000
Other:	
Other:	
Other:	
<b>Total Assets</b> (Add up the rows above)	<b>\$141,000</b>

### Liabilities

Item	Amount
Credit card balances	\$1,000
Balance owed on store purchases (layaway or other store credit)	
Bills due for services (medical, dental, electrical, gas, phone, and other services)	
Mortgages (principal balance)	\$100,000
Vehicle loans (principal balance)	\$3,000
Student loans (principal balance)	\$15,000

### Try It: Calculating Net Worth *continued*

#### Liabilities *continued*

Item	Amount
Other installment loans (principal balance)	
Home equity loan or line of credit (principal balance)	
Cash loans owed to friends, family, or employers (principal balance)	
Other:	
Other:	
Other:	
<b>Total Liabilities</b> (Add up the rows above)	<b>\$119,000</b>

#### Net Worth Calculation

Item	Value
<b>Total Assets</b> (from bottom row of the Assets table)	<b>\$ Fill In:</b>
<b>Total Liabilities</b> (from bottom row of the Liabilities table)	<b>\$ Fill In:</b>
<b>Net Worth</b> (Total Assets minus Total Liabilities)	<b>\$ Calculate:</b>

What did you learn from this activity?



## Apply It: Calculating My Net Worth

Fill out the table below to calculate your net worth to the best of your ability. Just leave blank any rows that do not apply to you.

Here are some tips to help you find information on the value of your assets and liabilities:

### Finding Information on Your Assets

Your records have information on your assets.

- Your statements from financial institutions will show your account balances for checking accounts and savings accounts.
- Your investment account statements will show the balances in your college savings plan, ABLE account, employer sponsored 401(k) retirement account, individual retirement account (IRA), or other kinds of investments.
- Your car title or car registration will show the make, model, and year of your car. Using that information, you can look up the trade-in or resale value through multiple sites on the internet.
- Public records or a recent appraisal can help you estimate the value of your house.

### Finding Information on Your Liabilities

Your records have information on your liabilities. Use the most current balances—what you owe now. Look at:

- Credit card statements
- Loan statements for car loans, student loans, personal loans, mortgages
- Records of money borrowed from friends or family



## Apply It: Calculating My Net Worth *continued*

### My Assets

Item	Value
Cash	\$
Checking and savings accounts (current balance)	\$
Matched savings account	\$
Savings bonds (current value)	\$
Stocks or mutual funds	\$
Certificates of deposit (CDs)	\$
Investment accounts (college savings plan, ABLE account, 401(k), IRA, other investments)	\$
Life insurance policy (cash value, if any)	\$
Car(s) or Truck(s) (trade-in or resale value)	\$
Other vehicles (motorcycle, motor home, boat, etc.)	\$
Home I own (current Market value)	\$
Personal possessions (jewelry, antiques, electronics, furniture, appliances, other items I could sell)	\$
Other:	\$
Other:	\$
Other:	\$
<b>My Total Assets</b> (Add up the rows above)	<b>\$</b>

### Apply It: Calculating My Net Worth *continued*

#### My Liabilities

Item	Amount
Credit card balances	\$
Balance owed on store purchases (layaway or other store credit)	\$
Bills due for services (medical, dental, electrical, gas, phone, and other services)	\$
Mortgages (principal balance)	\$
Car loans (principal balance)	\$
Student loans (principal balance)	\$
Other installment loans (principal balance)	\$
Home equity loan or line of credit (principal balance)	\$
Cash loans owed to friends, family, or employers (principal balance)	\$
Other:	\$
Other:	\$
Other:	\$
<b>My Total Liabilities</b> (Add up the rows above)	<b>\$</b>

## Apply It: Calculating My Net Worth *continued*

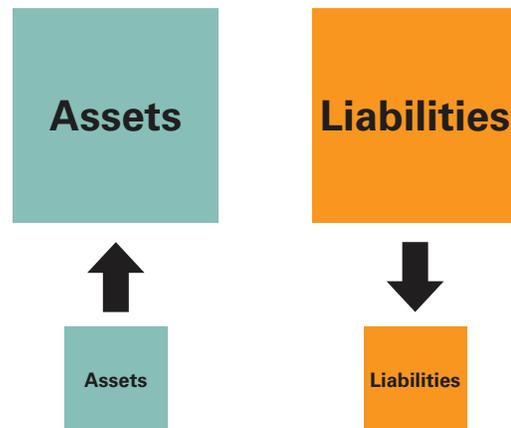
### My Net Worth Calculation

Items	Value
<b>My Total Assets</b> (Bottom row of the My Assets table)	\$
<b>My Total Liabilities</b> (Bottom row of the My Liabilities table)	\$
<b>My Net Worth</b> (My Total Assets minus My Total Liabilities)	\$

### Increasing Your Net Worth

You can increase your net worth by:

- Increasing your assets
- Decreasing your liabilities
- Doing both



### What are some specific ways people can increase their net worth?

You can take notes from the discussion here.



## Apply It: Increasing My Net Worth

Explore ways to change your net worth by answering these questions.

### How can I increase my net worth?

Think about increasing assets, decreasing liabilities, or both.

### How would these changes affect my financial future?



### Remember the Key Takeaway

Net worth is a good measure of your financial stability. Calculate your net worth by subtracting your liabilities (money you owe others) from your assets.